VERMONT PENSION INVESTMENT COMMITTEE
February 28, 2012

VPIC Members Present:
STEPHEN RAUH, CHAIR
BETH PEARCE, VICE-CHAIR, Vermont State Treasurer
VAUGHN ALTEMUS, Governor's Delegate, term expiring June 30, 2014
DICK JOHANNESEN, Governor's Delegate, term expiring June 30, 2014
JOSEPH MACKEY, VSTRS Representative, term expiring June 30, 2013
STEVEN JEFFREY, VMERS Representative, term expiring June 30, 2014
ROBERT HOOPER, VSERS Representative, term expiring June 30, 2012

VPIC Member(s) *Absent*:
None

VPIC Alternate Members Present:
THOMAS MCCONNELL, VSTRS *Alternate*, term expiring June 30, 2013
KAREN PAUL, *Alternate* Governor's Delegate, term expiring June 30, 2012
KEVIN GAFFNEY, VSERS *Alternate*, term expiring June 30, 2012
THOMAS GOLONKA, VMERS *Alternate*, term expiring June 30, 2012

VPIC Alternate Member(s) *Absent*:
None

Also attending:
Matt Considine, CFA, Director of Investments
Katie George, Investments Manager
Jaye Pershing Johnson and Bill Griffin, Attorney General's Office
Linda Deliduka, VSTRS Board Alternate
Richard M. Charlton, Christopher Levell and Doug Moseley, NEPC LLC
Joel East and Kevin Howard, JP Morgan
Marina Collins, Barry Bryant, and Rich Goodwin, City of Burlington
Robert Lehmert, National Advanced Planning Group, LLC
Monica Chiren, Clerk

CALL TO ORDER:

The Chair, Mr. Rauh, called the Tuesday, February 28, 2012 meeting to order at 8:30 a.m., which was held in the 4th Floor Conference Room, 109 State Street, Montpelier, VT.

ITEM 1: Agenda Approval, Announcements, and Minutes of January 24, 2012 Regular Meeting

The Chairperson, Mr. Rauh briefly reviewed the agenda. Mr. Mackey requested a short discussion concerning proxy voting be added to the agenda. There was a short discussion concerning the upcoming Princeton conference.

On a motion by Mr. Hooper, seconded by Mr. Altemus, the Committee unanimously approved the minutes of the January 24, 2012, Regular Meeting, as submitted.

ITEM 2: Director of Investments Report

- **Review January Flash Report**

Mr. Considine indicated that Post Advisory has asked the Board to consider allowing a change in the investment guidelines for the high yield portfolio they manage to include bank debt and non-USD securities. Mr. Considine indicated KDP has been investing in bank debt and that their contract prohibits investment in non-USD securities. The Committee discussed this request.

On a motion by Ms. Pearce, seconded by Mr. Johannesen, the Committee unanimously approved the recommendation of staff with respect to the Post Advisory request to allow exposure to bank debt and non-USD securities, with a maximum exposure to bank debt of 20% and a maximum exposure of 10% for non-USD securities.

(Ms. Pearce left briefly during this agenda item.)

(Mr. Jeffrey, Ms. Deliduka, Mr. Gaffney, Mr. Goodwin and Mr. Lehmert arrived during this agenda item.)

Mr. Considine indicated that Permal has indicated that VPIC has been charged a higher fee for 2011 than stipulated in the contract. Mr. Considine indicated this has resulted in a “true-up” in VPIC’s investment amount of $56,599. Mr. Considine indicated that subsequent to this finding all managers were contacted to ensure that required fee calculations were being provided to multiple individuals in the Treasurer’s office.

Mr. Considine indicated there were conference calls with Mondrian Partners and that no issues were uncovered. Mr. Considine indicated he intends to contact several managers quarterly in order to touch base with them and to provide the Committee updates, if any.

Mr. Considine indicated as of the close of market February 21, 2012 the Quality D Liquidity Pool net asset value (NAV) was $1.0001, the Duration Pool NAV was $0.9300 and the overall Quality D NAV was $0.9947, up slightly from an NAV of $0.9924 in the prior month. Mr. Considine indicated the Liquidity Pool’s percentage rose to 92.3% from 84.9% of VPIC’s invested amounts, and the Duration Pool decreased to 7.7% from 15.0%, compared to January. Mr. Considine indicated the “underwater” amount was down from the prior month at $1.6 million. It was indicated the “breakeven” timeframe decreased to 11.8 months from 13.7 months previously. Mr. Considine indicated the Committee would be discussing securities lending in more detail later on in the agenda.

Mr. Considine reviewed the assets under management document with the Committee.

Mr. Considine reviewed with the Committee the Portfolio asset allocation update. Mr. Considine indicated the Portfolio asset allocations were running pretty close to the manager's targets.

Mr. Considine reviewed with the Committee the investment manager total return and alpha attribution. The Committee reviewed the Up-Market/Down-Market Capture Reports.

Mr. Moseley reviewed the January 2012 flash report with the Committee.

ITEM 3: **Discussion Items/Updates**

- **Contract Updates**
- **Governance/Investment Guideline Sub-Committee Update**
- **iPad Project Update**
- **NEPC Manager Watch List Updates: GAM**

Ms. Johnson indicated they are in the process of contract negotiations and implementation of JP Morgan's contract.

Mr. Rauh indicated there were handouts on the table relative to the Governance/Investment Guideline Sub-Committee. Mr. Rauh indicated there have been two meetings to date, and there would be another one in the next couple of weeks. Mr. Rauh indicated this was a work-in-progress and solicited input from the Committee.

Ms. Pearce provided the Committee with a legislation update, including information concerning the health care funding, pension funding and an issue around VELCO.

Mr. Rauh thanked the Committee members that have provided their signed disclosure forms and requested those that didn't still needed to provide them.

Mr. Mackey initiated a discussion concerning corporation's spending money on elections. There was a discussion whether there needed to be a formal proxy voting policy change. Mr. Considine indicated he would look into this issue further.

Mr. Considine indicated there was nothing to report on the iPad project. Ms. Pearce indicated they will find out what the Government Operations Committee has and that this item will move forward.

Mr. Moseley indicated GAM's status has been updated to neutral with the hiring of the new senior person who seems to be working well. GAM has been removed from NEPC's manager watch list.

(Mr. Griffin arrived during this agenda item.)

Ms. Pearce was able to access the proxy policy and reviewed it with the Committee. Mr. Mackey indicated he just wanted to make certain there was full disclosure.

Mr. Hooper requested NEPC provide the cost for providing the paper copies of the reports to the Committee members, including the Federal Express shipping costs.

ITEM 4: **Asset Allocation and Portfolio Structure Review**

- **Expected Return versus Actuarial Return Assumptions**
- **Unified versus Customized Asset Allocations for the Individual Pension Plans**
- **Illiquid Investment Options – Private Equity, Real Estate**
- **Hedge Fund-of-Funds Overlap Analysis**
- **GFI, SSgA Equal Weighted Index**

NEPC reviewed with the Committee the *NEPC 2012 Capital Market Observations and VPIC Asset Allocation Review* document. There was a discussion concerning the expected return and the actuarial return assumptions. There was a discussion relative to the 30-year expected returns. There was a discussion about the Select-and-Ultimate method and returns. NEPC reviewed their recommendations for the VPIC portfolio.

(Mr. McConnell and Ms. Paul arrived during this agenda item.)

NEPC reviewed with the Committee their four proposed alternate asset mixes. There was a discussion about private equity strategies and emerging markets debt. There was a discussion about liquidity. Ms. Pearce indicated she would like to provide NEPC with a few more stress scenarios that NEPC should run in addition to the ones they have already provided to the Committee. There was a discussion about risk parity.

(A luncheon recess was taken from 11:57 a.m. to 12:48 p.m.)

(Mr. Griffin, Mr. Goodwin and Mr. Lehmert were not present for the afternoon session.)
(Mr. Howard entered the meeting after the luncheon recess.)

The Committee further discussed the proposed alternate asset mixes.

On a motion by Mr. Jeffrey, seconded by Mr. Mackey, the Committee unanimously approved to reduce Global Bonds from 8% to 3%, to increase High Yield Bonds from 5% to 6%, to increase Emerging Market Debt from 3% to 5%, to increase Global Asset Allocation from 10% to 11%, and to add 1% to Risk Parity. After a

friendly amendment the 1% to Risk Parity was omitted, and the 1% was added to Global Asset Allocation making that an increase from 10% to 12%.

(Ms. Pearce left the meeting at this time.)

The Committee further discussed the implementation of the above changes.

On a motion by Mr. Jeffrey, seconded by Mr. Mackey, the Committee unanimously approved to reduce Brandywine Global Fixed Income from 4% to 0% and to reduce Mondrian Global Fixed Income from 4% to 3%.

On a motion by Mr. Jeffrey, seconded by Mr. Altemus, the Committee unanimously approved to increase PIMCO All-Asset from 5% to 6%, to increase Wellington OIF from 3.5% to 4%, and to increase Mellon Expanded Alpha from 1.5% to 2%.

On a motion by Mr. Jeffrey, seconded by Mr. Mackey, the Committee unanimously approved to increase the High Yield Bonds with KDP from .75% to 1% and to increase the High Yield Bonds with Post Advisory from 4.25% to 5%.

The Committee reiterated that Wellington is the only Emerging Market Debt manager and that the increase would be from 3% to 5% for Emerging Market Debt. Mr. Rauh indicated the Committee will continue the private equity discussion at the next meeting. Mr. Rauh indicated the Committee would further discuss a modest increase to the Real Estate allocation later in the year.

ITEM 5: Securities Lending Analysis and Discussion

Mr. Considine and Ms. George discussed with the Committee the custodian conversion of the securities lending portfolio. Ms. George reviewed with the Committee the four scenarios pricing the portfolio. Mr. Considine and Ms. George responded to all questions posed by the Committee. Ms. George reviewed with the Committee the timeline relative to the liquidation of the Securities Lending Portfolio.

On a motion by Mr. Mackey, seconded by Mr. Hooper, the Committee unanimously approved to accept the proposal as presented by the Treasurer's Office staff with respect to the liquidation of the Securities Lending Portfolio with State Street.

ITEM 6: NEPC Q4/Year-End Performance Review

NEPC reviewed with the Committee the *Investment Performance Analysis* document. Mr. Jeffrey questioned the Municipal system having the same portfolio mix as the Teachers' system. The Committee further discussed this item.

(Ms. Pearce entered the meeting during this agenda item.)

ITEM 7: Economic and Financial Market Dashboard

The Committee discussed the list of positive and negative factors. The Committee set its 12-month forward expectation for U.S. GDP at 1.5% and for CPI at 2.5%.

ITEM 8: Other or New Business

Mr. Altemus inquired about the NEPC conference in May. Ms. Pearce indicated the Treasurers' Office would handle the arrangements for anyone who wanted to attend the conference.

ITEM 9: Adjournment

The Committee adjourned at 3:00 p.m.

Respectfully submitted,

Monica Chiren, Clerk